

Before the
Federal Communications Commission
 Washington, D.C. 20554

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JUN 25 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)	
)	
Federal-State Joint Board on)	CC Docket No. <u>96-45</u>
Universal Service)	
)	
Forward-Looking Mechanism)	CC Docket No. 97-160
For High Cost Support For Non-Rural LECs)	
)	APD No. 98-1
)	DA 98-1055

COMMENTS

BellSouth Corporation, for itself and its affiliated companies (hereinafter "BellSouth"), files these comments in response to the Commission's Public Notice of June 4, 1998.¹ For the reasons set forth below, BellSouth urges the Commission to approve cost studies which have been developed by individual states and permit their use within such states in lieu of a Federal model to calculate the costs of provisioning universal service. BellSouth also supports waiver of the requirement to employ Commission-prescribed ranges of economic lives and future net salvage value in calculating depreciation expenses, where the applicant can demonstrate that current conditions render the use of standardized ranges inappropriate.

DISCUSSION

The *Universal Service Order* established a timetable for development of a Federal model employing long-run, forward-looking economic costs to calculate the level of support necessary

¹ "Common Carrier Bureau Seeks Comment on State Forward-Looking Cost Studies for Universal Service Support," *Public Notice*, DA 98-1055, released June 4, 1998 ("Public Notice").

to effectuate universal service goals for rural, insular and high cost areas.² As an alternative to use of the Federal model, states were given the option of developing individual cost models, which were subject to review by the Commission to determine compliance with a set of criteria specified in the *Universal Service Order*.³ Four of the states served by BellSouth--Kentucky, Louisiana, North Carolina and South Carolina--have elected to file state-specific models to be used in calculating universal service support payments within those jurisdictions.

The Commission should approve these state cost models. "Even though cost proxy models design a hypothetical network, the cost of that network should reflect real world characteristics. That is, it should reflect the costs that an efficient provider would experience in building and operating that network."⁴ State commissions bring decades of experience to this determination of real world costs. Additionally, state commissions possess unique knowledge of parochial conditions affecting the level of service provisioning costs (*e.g.*, characteristics of terrain, population densities, availability and pricing of contract labor, *etc.*). All of these advantages are captured through the use of state-specific models.⁵

The cost models under consideration were adopted after lengthy proceedings and the compilation of voluminous testimony by the state commissions of Kentucky, Louisiana, North Carolina and South Carolina. LECs, IXC's and consumer advocate groups--representing the full spectrum of interests affected by the universal service mandate--were given the opportunity to

² Federal-State Joint Board on Universal Service, CC Docket No. 96-45, *Report and Order*, 12 FCC Rcd 8776, 8899, para. 245-46 (1997) (*Universal Service Order*); *appeal pending sub nom.*, Texas P.U.C. v. F.C.C., No. 97-60421 (5th Cir. 1997).

³ *Id.* at para. 248-50.

⁴ Federal-State Joint Board on Universal Service, CC Docket No. 96-45, *BellSouth Comments*, p. 4, June 1, 1998.

⁵ For similar reasons BellSouth has recommended the use of state-specific input values in those states employing the Federal model and has filed proposed inputs for the five remaining states in the BellSouth region which did not submit cost studies.

appear and present their views.⁶ The resulting cost models reflect this diversity of opinion. They are the product of compromise and reasoned decisionmaking, and BellSouth supports their approval in this docket; notwithstanding that the Company is unable to concur with the plans put forward in all their specifics.⁷

BellSouth likewise supports waiver of the Commission's prescribed ranges for lives and salvage values as urged by Ameritech Michigan. In a recent filing, undertaken jointly by BellSouth, U S West, Inc. and the Sprint Local Telephone Companies, the parties showed that the Commission ranges are obsolete, being based upon depreciation represcriptions made from 1990 to 1994.⁸ The discrepancy is particularly significant in the case of major technology-sensitive accounts, *i.e.*, Digital Electronic Switching, Circuit, and Metallic Cable, which comprise over 70% of BellSouth's investment. The Commission has itself recognized the deficiencies of these prescribed ranges. In more recent depreciation represcriptions, it has approved the use of shorter lives on several accounts subject to range limitations, including all

⁶ In South Carolina a total of nineteen parties participated in the universal service docket and presented the direct or rebuttal testimony of thirty-six witnesses. The public hearing lasted four days. Similar proceedings consumed six days and seven days in North Carolina and Kentucky, respectively. In Louisiana, pre-filed testimony was followed by three days of public hearings and the submission of briefs by interested parties. Commission staff filed an initial recommendation, on which public comment was solicited. Thereafter, a revised staff recommendation was presented for vote by the Commission and formed the basis of its final order. More than three months was devoted to this process, which concluded on April 20, 1998.

⁷ For example, BellSouth does not support the Hatfield model, used in the Kentucky and Louisiana cost studies. As demonstrated by Sprint in recent *ex parte* meetings with Commission staff, the Hatfield model is replete with serious flaws, making it unsuitable for the calculation of universal service costs. Unfortunately, the Kentucky and Louisiana commissions were denied the benefit of this analysis, which was publicized only after the state proceedings had been concluded.

⁸ Federal-State Joint Board on Universal Service, CC Docket No. 96-45, *Joint Comments of BellSouth Telecommunications, Inc., U S West, Inc., and Sprint Local Telephone Companies to Common Carrier Bureau Request for Further Comment on Selected Issues Regarding the Forward-Looking Economic Cost Mechanism for Universal Service Support*, pp. 13-14, June 1, 1998.

the major technology-sensitive accounts.⁹ Given these circumstances, the Commission should be prepared to waive the use of lives and salvage values based upon prescribed ranges in any case where the waiver applicant has made a reasonable evidentiary showing.

⁹ *Id.* It is instructive to note that in 1994, the Commission prescribed lives for analogous AT&T accounts which parallel the lives used in BellSouth cost studies and are significantly shorter than the FCC ranges to be applied to universal service support calculations. The following table provides this comparison:

Account	1994 AT&T Prescribed	BellSouth Cost Studies	BellSouth Prescribed
Digital Electronic Switching	9.7	10	15.5 – 17.5
Circuit Digital Equipment	7.2	8.3	10 – 11
Circuit Analog Equipment	2.5	6.9	7 – 11
Metallic Cable	3.4 – 15	12 - 14	18 – 25
Non-Metallic Cable	20	20	25 – 30

Source of AT&T prescribed lives: 1994 FCC Represcription “Three-Way Meeting” Results for AT&T Communications. August 2, 1994.

CONCLUSION

The Commission should approve cost models submitted by Kentucky, Louisiana, North Carolina and South Carolina for use in calculating the level of universal service support appropriate to those jurisdictions. In addition, the Commission should permit the use of lives and salvage values outside prescribed ranges in determining depreciation expenses, upon a reasonable evidentiary showing by the waiver applicant.

Respectfully submitted,

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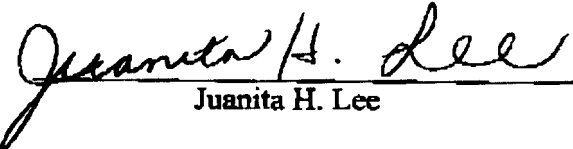
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CERTIFICATE OF SERVICE

I do hereby certify that I have this 25th day of June 1998 served the following parties to this action with a copy of the foregoing COMMENTS by hand delivery or by placing a true and correct copy of the same in the United States Mail, postage prepaid, addressed to the parties listed on the attached service list.



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